News Release

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FOR IMMEDIATE RELEASE
February 10, 2021

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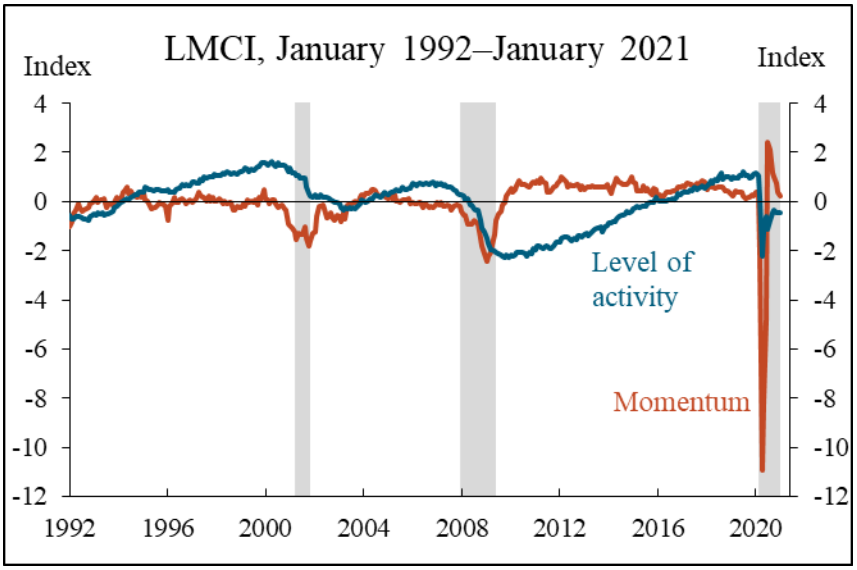
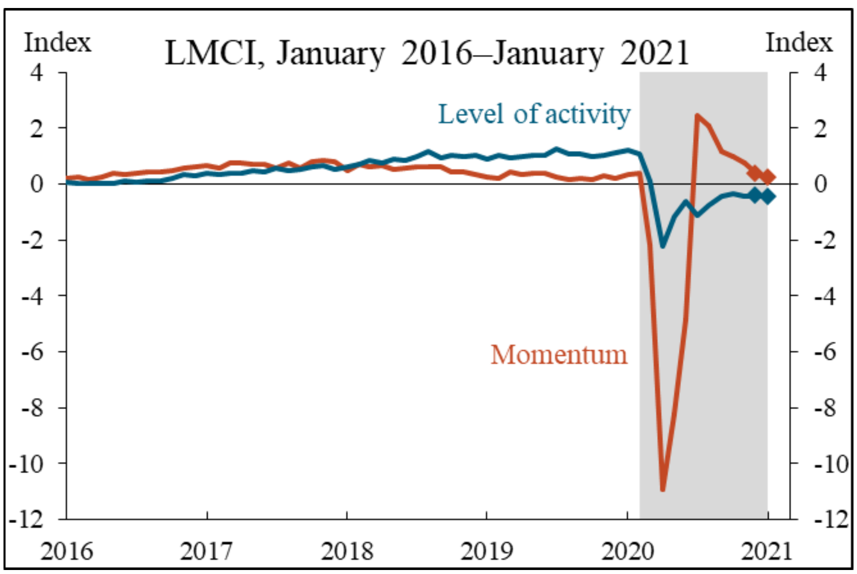
The KC Fed LMCI suggests the level of activity was little changed in January while momentum decelerated moderately.

The Kansas City Fed Labor Market Conditions Indicators (LMCI) suggest the level of activity was little changed in January while momentum decelerated moderately. The level of activity indicator was little changed in January at −0.44. Meanwhile, the momentum indicator decreased by 0.17 from 0.38 to 0.21, suggesting labor market momentum has continued to decelerate, though it remains positive.





These readings likely do not fully describe the state of the labor market at the end of January, as many of the input data series reflect conditions early in the month. In particular, the series do not include the effects of the decrease in new COVID-19 cases or the effects of vaccination. For example, data from the Bureau of Labor Statistics' Household Survey are from the reference period of January 10 through January 16. Additionally, the most recent data from the Job Openings and Labor Turnover Survey (JOLTS) are for December 2020. Therefore, labor market developments in the latter half of January, including the labor market response to recent COVID-19 developments, will likely show up in the February 2021 LMCI readings.

Largest Contributions to the LMCI	
Contributions to the increase in the *level of activity* indicator over the last six months	**Positive contributions to the *momentum* indicator in January 2021**
Average hourly earnings	Temporary help employment
Unemployment rate (U3)	Unemployed 27 or more weeks
Broad unemployment rate (U6)	Expected job availability (U of Michigan)
Working part time for economic reasons	Labor force participation rate
Unemployment forecast (Blue Chip)	Manufacturing employment index (ISM)

Note: Contributions are ordered from largest in absolute value to smallest.

The table to the right shows the five labor market variables that made the largest contributions to the increase in the activity indicator over the last six months. The activity indicator increased by 0.69 over the last six months. Overall, 14 variables made a positive contribution to the change in the activity indicator over the last six months, and 10 variables made a negative contribution. The largest positive contributor to the level of activity over the last six months was the three-month percent change in average hourly earnings. Average hourly earnings rose 2.1 percent over the last six months. The recent rise in average hourly earnings, however, is largely due to a change in the composition of the workforce, as a disproportionate number of low-wage workers lost their jobs. From November 2020 to January 2021, the leisure and hospitality sector lost nearly 600,000 jobs, more than accounting for the 200,000 decline in total private nonfarm payrolls over the same period. Absent these compositional changes that have artificially driven up earnings growth, the increase in the level of activity indicator over the last six months would likely be smaller. The largest negative contributor to the level of activity was the percent of unemployed that have been unemployed 27 or more weeks. This series has risen dramatically over the last six months from 9.1 percent in July 2020 to 39.5 percent in January 2021 as workers laid off in the early months of the pandemic have transitioned into long-term unemployment.

The table also shows the five variables that made the largest positive contributions to the momentum indicator in January 2021. Overall, 13 variables made a positive contribution to momentum in January, and 11 variables made a negative contribution. The momentum indicator was 0.21 in January, where the largest positive contributor was the three-month percent change in temporary help employment. Temporary help employment increased by 7.3 percent from October 2020 to January 2021. However, this increase is smaller than the 9.4 percent increase in the series from September 2020 to December 2020 and thereby contributed to the momentum indicator's decline. The variable that made the largest negative contribution to momentum was the three-month percent change in average hourly earnings. Average hourly earnings rose by 1.4 percent from October 2020 to January 2021. As discussed above, the recent rise in average hourly earnings is largely due to a change in the composition of the workforce. Absent these compositional changes that have artificially driven up earnings growth and driven down momentum, the deceleration in the momentum indicator would likely be smaller.